

DEC 18 '97

11-10AM

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RECEIVED
SURFACE TRANSPORTATION
BOARD

DEC 18 11 09 AM '97

December 18, 1997

Mr. Vernon A. Williams
Secretary
Surface Transportation Board
Washington, D.C. 20423

Dear Mr. Williams:

Enclosed for recordation pursuant to the provisions of 49 U.S.C. Section 11301(a) are two (2) copies of a Security Agreement (Rolling Stock and Leases), dated as of November 26, 1997, a primary document as defined in the Board's Rules for the Recordation of Documents.

The names and addresses of the parties to the enclosed document are:

Debtor: Keokuk Junction Railway Co.
1318 South Johanson Road
Peoria, Illinois 61607

Secured Party: First of America Bank-Illinois, N.A.
301 S.W. Adams
Peoria, Illinois 61652

A description of the railroad equipment covered by the enclosed document is set forth on Exhibit A attached to the Security Agreement.

Counterparts - L. Bartman

Mr. Vernon A. Williams
December 18, 1997
Page 2

Also enclosed is a check in the amount of \$24.00 payable to the order of the Surface Transportation Board covering the required recordation fee.

Kindly return one stamped copy of the enclosed document to the undersigned.

Very truly yours,

A handwritten signature in black ink, appearing to read "Robert W. Alvord", with a stylized flourish at the end.

Robert W. Alvord

RWA/bg
Enclosures

RECORDATION NO. 21083 FILED

DEC 18 '97

11-10 AM

**SECURITY AGREEMENT
(ROLLING STOCK AND LEASES)**

THIS AGREEMENT ("Agreement") is made and entered into as of the 26th day of November, 1997, between KEOKUK JUNCTION RAILWAY CO., an Iowa corporation, of 1318 South Johanson Road, Peoria, Illinois 61607 ("Debtor") and FIRST OF AMERICA BANK-ILLINOIS, N.A., a national banking association, of 301 S.W. Adams, Peoria, Illinois 61652, ("Lender").

WITNESSETH:

The parties hereto agree as follows:

1. Definition.

"Borrower" means Pioneer Railcorp, an Iowa corporation, the beneficial owner of 100% of the outstanding capital stock of Debtor.

"Indebtedness" has the meaning ascribed to such term in the Loan Agreement

"Loan Agreement" means that certain Business Loan Agreement of even date herewith among Debtor, Borrower and Lender, as the same may be amended, renewed, restated, modified or supplemented from time to time.

Unless otherwise defined herein, all capitalized terms used herein shall have the meaning ascribed to such term in the Loan Agreement.

2. Security. To induce Lender to enter into the Loan Agreement, and in consideration thereof and of any loans, advances or financial accommodations heretofore or hereafter granted by Lender to Borrower, Debtor hereby conveys, hypothecates, mortgages, assigns, pledges, sets over, delivers, grants and confirms to Lender, for the benefit of Lender, a continuing security interest in all of Debtor's right, title and interest in, to and under the following, regardless of where located and whether now existing or hereafter arising or acquired:

(a) the goods described in Exhibit A hereto and all other goods of like type hereafter specifically aliened to Lender, together with all replacements thereof, and all accessories, attachments and accessions now or hereafter acquired or appertaining thereto (collectively, the "Rolling Stock");

(b) all leases and other agreements pertaining to the Rolling Stock and all rights to payment and other rights thereunder, including without limitation accounts receivable, rents, claim, security deposits, contract rights, general intangibles and chattel paper, but only insofar as the same pertain to the Rolling Stock (collectively, the "Leases");

(c) all security, guarantecs, waivers, deposits and other agreements, instruments and property received by or on behalf of Debtor in connection with any of the Leases;

(d) all books and records pertaining to the Rolling Stock and/or the Leases;

(e) all proceeds, including insurance proceeds, of the foregoing and products of the foregoing.

All of the foregoing (collectively, the "Collateral") are pledged and aliened hereunder as security for the prompt payment and the prompt and full performance when due of the Indebtedness.

3. **Representations and Warranties.** To induce Lender to enter into the Loan Agreement, Debtor hereby makes the following representations and warranties to Lender, each of which shall survive the execution and delivery of this Agreement, and shall continue to be true until termination hereof:

(a) Debtor is a corporation duly organized and existing under the laws of the State of Iowa and is qualified to do business in every jurisdiction where the nature of its business requires it to be so qualified and where failure so to qualify might materially affect its business or assets, and has all requisite power and authority, corporate and otherwise, to conduct its business, to own its property, and to execute, deliver and perform all of its obligations under this Agreement and the Loan Agreement.

(b) The execution, delivery and performance of this Agreement and the creation of the liens and security interests provided for hereunder are within Debtor's corporate power, have been duly authorized by all necessary or proper corporate action, including the consent of Debtor's shareholders, if required, are not in contravention of any provision of law or of any agreement or other instrument (including without limitation any lease) by which Debtor is bound or of Debtor's Articles of Incorporation or By-Laws, and do not require the consent or approval of any governmental body, agency, authority or other person which has not been obtained and a copy thereof furnished to Lender. This Agreement constitutes Debtor's valid and binding obligation, enforceable against Debtor in accordance with its terms.

(c) Debtor is the legal and equitable owner of, and has the authority to grant a security interest in, the Collateral and holds the same free and clear of all liens, charges, encumbrances and security interests and Debtor has good right and legal authority to grant a security interest in, the Collateral in the manner hereby done and will defend its title thereto against the claims of all persons whomsoever. None of the Leases contain any term or provision that prohibits granting a security interest therein to Lender.

(d) Debtor's principal place of business and principal executive office are located at the address set forth after Debtor's name on the signature page of this Agreement. All Rolling Stock is and will be used, located and kept solely within the railroad system of North America.

(e) Debtor has concurrently with delivery of this Agreement provided to Lender a letter listing all leases of each item of Rolling Stock, and will advise Lender on an annual basis (or more often, as Lender may reasonably request) in writing of any new lessees and any new information relative to existing lessees.

4. **Default.** Each of the following shall constitute an "Event of Default" hereunder:

(a) if there shall occur any "Event of Default" under the Loan Agreement, as such term is defined therein;

(b) if any of the Collateral shall, in connection with any obligations or asserted obligations of Debtor, be attached, levied upon, seized in any legal proceedings or held by virtue of any lien or distress where such attachment, levy or seizure would have a Material Adverse Effect.

5. **Termination.** Debtor acknowledges and agrees that this Agreement shall continue in full force and effect until terminated in accordance with the Loan Agreement.

6. **Perfection of Security Interests.**

(a) Debtor will cause this Agreement, and any assignments hereof and any amendments or supplements hereto or thereto, to be filed and recorded with the Surface Transportation Board in accordance with 49 U.S.C. § 11301 (the "Act"). Debtor will from time to time do and perform any other act and will execute, acknowledge, deliver, file, register, deposit and record any and all further instruments required by law or reasonably

requested by Lender for the purposes specified in the immediately preceding sentence of this Section 6.(a). Debtor will promptly furnish to Lender certificates or other evidence satisfactory to Lender of any such filing, registering, depositing or recording. In addition, Debtor will upon request by Lender mark any or all items of Rolling Stock with such legend and in such manner as Lender may require.

(b) Debtor will not, unless Lender shall otherwise consent in writing, grant, create or permit to exist any security interest in any Collateral to or in favor of any Person other than Lender.

(c) Debtor will furnish to Lender, from time to time, upon Lender's request, such evidence as Lender may reasonably require to reflect that all necessary filings and recordings have been made, and other actions taken, to protect the interests of Lender in and to the Collateral.

(d) Debtor agrees that any financing statements filed hereunder shall remain in full force and effect until this Agreement shall have been terminated even if, at any time or times prior to such termination, Debtor shall have no outstanding obligations to Lender. Accordingly, Debtor waives any rights which it may have under Section 9-404(1) of the Uniform Commercial Code to demand the filing of termination statements with respect to the Collateral, and agrees that Lender shall not be required to send such termination statements to Debtor, or to file them with any filing office, unless and until this Agreement shall have been terminated in accordance with the Loan Agreement.

7. Maintenance of Rolling Stock; Compliance; Insurance.

(a) Debtor will at all times maintain the Rolling Stock (other than obsolete Rolling Stock) in good order and repair at its own expense. Except for transfers of item of Rolling Stock effected in the ordinary course of Debtor's business following substantial damage thereto, Debtor will not sell, transfer or otherwise dispose of any Rolling Stock without Lender's prior written consent. In the event that any unit of the Rolling Stock shall be worn out, lost, stolen, destroyed, irreparably damaged, transferred as provided in the preceding sentence, or otherwise rendered permanently unfit for use from any cause whatsoever, or taken or requisitioned by a condemnation or otherwise (such occurrences being hereinafter called "Casualty Occurrences"), Debtor shall inform Lender in regard thereto; such information shall be provided at least annually, and shall also be provided promptly after any time that the number of serviceable units of Rolling Stock falls below 5 locomotives or 27 non-locomotives. If at any time the number of serviceable units of Rolling Stock aliened to Lender hereunder falls below the above, Debtor will within 90 days thereafter identify to Lender substitute items of equipment which must have a value equivalent to or greater than the affected Rolling Stock and be otherwise satisfactory to Lender in all respects, for inclusion in the Rolling Stock aliened hereunder, so that the total number of serviceable units of Rolling Stock aliened to Lender hereunder shall thereupon be not less than 5 locomotives and 27 non-locomotives. Debtor will deliver to Lender all supplements hereto and other documents, and take all such other actions, as Lender may require in connection with substitute items of equipment to be included in the Rolling Stock aliened hereunder.

(b) During the term of this Agreement, Debtor will at all times comply in all material respects with all laws of the jurisdictions in which its operations involving the Collateral may extend, with the interchange rules of the Association of American Railroads and with all lawful rules of the Department of Transport, Surface Transportation Board and any other legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Collateral, to the extent that such laws and rules affect the title, operation or use of the Collateral, and in the event that such rules or laws require any alteration, replacement or addition of any part on any unit of Collateral, Debtor will conform therewith, at its own expense; provided, however, that Debtor may in good faith contest the validity or application of any such law or rule in any reasonable manner which does not, in the opinion of Lender, have a Material Adverse Effect.

(c) Debtor will maintain or cause to be maintained insurance in such amounts, and against such perils, as Lender may reasonably require from time to time. Notwithstanding the foregoing, Debtor (i) shall have the right to self-insure for physical damage to or destruction of the Rolling Stock, and (ii) shall not be required

to carry insurance coverage of more than \$1,000,000.00 with respect to liability pertaining to the Rolling Stock. Any policies of property insurance covering Collateral shall show loss payable to Lender on such form as Lender may require, and all policies of liability insurance shall name Lender as additional insured. Certificates of such insurance shall be delivered to Lender upon request. Debtor hereby appoints Lender, in any event at Lender's option, as Debtor's agent and attorney-in-fact to compromise, adjust and settle all claims under such policies of insurance.

8. Default Remedies.

(a) **Default.** The happening or occurrence of any default as set forth in Section 6.1 of the Loan Agreement, which is incorporated herein as provision of this Agreement.

(b) **Remedies.**

- (i) Upon the occurrence of a Default, Lender (i) shall have all of the rights and remedies with respect to the Collateral specified in Section 6.2 of the Loan Agreement, (ii) shall have available to it all remedies provided by the Uniform Commercial Code or other applicable law, including without limitation the right to collect money due to Debtor in respect of the Collateral, to enforce in Debtor's name or otherwise all rights with respect to the Collateral, and to notify lessees under Leases to make payments directly to Loan, and (iii) may, in addition, take or cause to be taken by its agent or agents immediate possession of the Rolling Stock or one or more of the units thereof, without liability to return to Debtor any sums theretofore paid and free from all claims whatsoever, and remove the same from possession and use of Debtor or any other person or entity and for such purpose may enter upon Debtor's premises or any other premises where the Rolling Stock may be located and may use and employ in connection with such removal any supplies, services and equipment and any available trackage and other facilities or means of Debtor or otherwise.
- (ii) In case Lender shall demand possession of the Rolling Stock after the occurrence of a Default and shall reasonably designate a point or points upon the premises of Debtor or elsewhere for the delivery of Rolling Stock to Lender, Debtor shall, at its own expense forthwith and in the usual manner (including, but not by way of limitation, giving prompt notice to the Association of American Railroads and all railroads to which any part of the Rolling Stock has been interchanged to return the Rolling Stock so interchanged, cause (i) the Rolling Stock to be moved to such point or points as shall be designated by Lender and shall there deliver the Rolling Stock or cause it to be delivered to Lender and (ii) the Rolling Stock to be moved to such interchange point or points as shall be designated by Lender upon any sale, lease or other disposal of all or any part of the Rolling Stock by Lender. At the option of Lender, Lender may keep the Rolling Stock on any of the premises of Debtor or elsewhere until Lender shall have leased, sold or otherwise disposed of the same, and for such purpose Debtor agrees to furnish, without charge for rent or storage, the necessary facilities at any point or points selected by Lender, at Debtor's risk, to permit inspection of the Rolling Stock by Lender, Lender's representatives and prospective purchasers and users. The provisions of this Section 8.(b)(ii) are an essential part of the agreement between the parties and, upon application to any court of equity having jurisdiction in the premises, Lender shall be entitled to a decree against Debtor requiring specific performance hereof. To the extent

permitted by law, Debtor hereby expressly waives any and all claims against Lender and its agent or agents for damages of whatever nature in connection with any retaking of any unit of the Rolling Stock in any manner.

- (iii) In exercising its right to sell, lease or otherwise dispose of the Collateral, Lender may sell, lease or otherwise dispose of all or any Collateral at public or private sale or sales, with such notice as may be required by law, in lots or in bulk, all as Lender, in its sole discretion, may deem advisable; such sales may be adjourned from time to time with or without notice. Lender shall have the right to conduct such sales on Debtor's premises or elsewhere and shall have the right to use Debtor's premises without charge for such sales for such time or times as Lender may see fit. Lender is hereby granted a license or other right to use, without charge, Debtor's labels, patents, copyrights, rights of use of any name, trade secrets, tradenames, trademarks, service marks and advertising matter, or any property of a similar nature, as it pertains to the Collateral, in advertising for sale and selling any Collateral and Debtor's rights under all licenses and all franchise agreements shall inure to the benefit of Lender. Lender shall have the right to sell, lease or otherwise dispose of the Collateral, or any part thereof, for cash, credit or any combination thereof, and Lender may purchase all or any part of the Collateral at public or, if permitted by law, private sale and, in lieu of actual payment of such purchase price, may set off the amount of such price against Debtor's obligations to Lender. The proceeds realized from the sale of any Collateral shall be applied first to the costs, expenses and attorneys' fees and expenses incurred by Lender for collection and for acquisition, completion, protection, removal, storage, sale and delivery of the Collateral; second to fees due to Lender; third to interest due upon any of the Indebtedness; and fourth to the principal of the Indebtedness. If any deficiency shall arise, Debtor shall remain liable to Lender therefor.
- (iv) Any notice of any sale, lease, other disposition or other intended action by Lender shall be reasonable if it is given to Debtor at least ten (10) days in advance of the intended disposition or other intended action.

9. Waivers; Amendments; Successors and Assigns.

- (a) Debtor waives presentment and protest of any instrument and notice thereof, notice of default and all other notices to which Debtor might otherwise be entitled.
- (b) Failure by Lender to exercise any right, remedy or option under this Agreement or in any other agreement between the parties hereto, or delay by Lender in exercising the same, will not operate as a waiver.
- (c) No waiver by Lender shall be effective unless it is in writing and then only to the extent specifically stated, and no waiver by Lender on any occasion shall affect or diminish Lender's rights thereafter to require strict performance by Debtor of any provision of this Agreement.
- (d) Lender's rights and remedies under this Agreement will be cumulative and not exclusive of any other right or remedy which Lender may have.
- (e) This Agreement cannot be changed or terminated orally.
- (f) All of the rights, privileges, remedies and options given to Lender hereunder shall inure to the benefit of its successors and assigns; and all the terms, conditions, promises, covenants, provisions and

warranties of the Agreement shall inure to the benefit of and shall bind the representatives, successors and assigns of Debtor.

10. General Provisions.

(a) Wherever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity without invalidating the remainder of such provision or the remaining provisions of this Agreement.

(b) Debtor covenants, warrants and represents to Lender that all representations and warranties contained in this Agreement shall be true at the time of Debtor's execution of this Agreement, shall survive the execution, delivery and acceptance thereof by the parties hereto and the closing of the transactions described herein or related hereto.

(c) Except as may be provided in the Loan Agreement, no termination or cancellation (regardless of cause or procedure) of the Loan Agreement shall in any way affect or impair the powers, obligations, duties, rights and liabilities of the parties hereto in any way with respect to (i) any transactions or event occurring prior to such termination or cancellation, (ii) the Collateral or (iii) any of Debtor's undertakings, agreements, covenants, warranties and representations shall survive such termination or cancellation until all of the Indebtedness shall have been fully paid and satisfied.

(d) Lender may, in its sole discretion, (i) exchange, enforce, waive or release any security or portion of the Collateral, (ii) apply such security or any proceeds of the Collateral and direct the order or manner of sale thereof as Lender may, from time to time, determine, and (iii) settle, compromise, collect or otherwise liquidate any such security or Collateral for the Indebtedness in any manner following the occurrence of an Event of Default without affecting or impairing Lender's right to take any further action with respect to any security or Collateral for such Indebtedness or any part thereof.

(e) Debtor recognizes that, in the event it fails to perform, observe or discharge any of its obligations or liabilities under this Agreement, any remedy of law may prove to be inadequate relief to Lender; therefore, Debtor agrees that Lender, if it so requests, shall be entitled to temporary and permanent injunctive relief in any such case without the necessity of proving actual damages.

(f) This Agreement has been negotiated, executed and delivered in and is to be performed in the State of Illinois. The validity of this Agreement and of all transactions provided for herein shall be governed by, interpreted and construed under, and in accordance with, the internal laws (and not the law of conflicts) of the State of Illinois, provided, however, that the parties shall be entitled to all rights conferred by the Act and such additional rights arising out of the filing, recording or deposit hereof, if any, and of any assignment hereof as shall be conferred by the laws of the several jurisdictions in which this Agreement or any assignment hereof or any financing statement shall be filed, recorded or deposited.

(g) If any provision contained in this Agreement is in conflict with, or inconsistent with, any provision in the Loan Agreement, the provisions contained in the Loan Agreement shall govern and control.

(h) This Agreement may be executed by the parties in any number of separate counterparts, and by each party on separate counterparts; each counterpart shall be deemed an original instrument; and all of the counterparts taken together shall be deemed to constitute one and the same instrument.

DEBTOR:

KEOKUK JUNCTION RAILWAY CO.,
an Iowa corporation
1318 South Johanson Road
Peoria, Illinois 61607

By: J. Michael Carr - CFO
Guy L. Breckman
Its: President

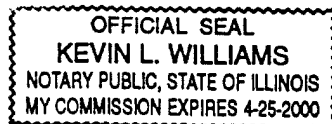
LENDER:

FIRST OF AMERICA BANK-ILLINOIS, N.A.,
a national banking association
301 S.W. Adams
Peoria, Illinois 61652

By: John Fuelberth
Its: Vice President

STATE OF ILLINOIS)
) SS.
COUNTY OF PEORIA)

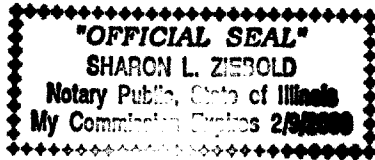
On this 9th day of December, 1997, before me personally appeared J. Michael Carr ^{CFO} Guy L. Breckman, to me personally known to be the President of Keokuk Junction Railway Co., who being by me duly sworn, acknowledged that he, as such officer, being authorized so to do, executed the foregoing instrument for the purposes therein contained by signing the name of the corporation by himself as such officer.



Kevin L. Williams
Notary Public, County
State of
My Commission Expires: 4-25-2000

STATE OF ILLINOIS)
) SS.
COUNTY OF PEORIA)

On this 9 day of December, 1997, before me personally appeared John Fuelberth, to me personally known to be the Vice President of First of America Bank-Illinois, N.A., who being by me duly sworn, acknowledged that he, as such officer, being authorized so to do, executed the foregoing instrument for the purposes therein contained by signing the name of the corporation by himself as such officer.



Sharon L. Zibold

Notary Public, *Peoria* County
State of *Illinois*
My Commission Expires: _____

EXHIBIT A

Railroad Rolling Stock (other than locomotives):

<u>Quantity</u>	<u>Fleet Nos.</u>	<u>Type of Car</u>
1	222	60', double door box
2	813, 939	50', single door box
1	226	4500 cubic foot covered hopper
15	4000 to 4014	4000 cubic foot covered hopper
6	4401 to 4405, 4427	4427 cubic foot covered hopper
2	4740, 4741	4740 cubic foot covered hopper

Locomotives:

<u>Road Number</u>	<u>Type</u>
405	NW2, 1000 hp switch engine
252	GP7, road switcher
488	GP7, road switcher
469	GP8, road switcher
471	GP8, road switcher